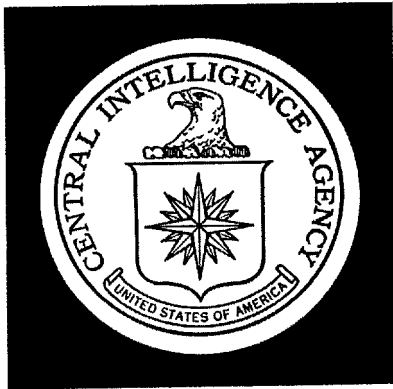


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Central Intelligence Bulletin

Top Secret

173

11 October 1967

25X1

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11 October 1967

25X1

Central Intelligence Bulletin

CONTENTS

USSR: Moscow sets increases in military spending.
(Page 3)

Czechoslovakia: Party differences hamper regime in
coping with serious problems. (Page 4)

Bolivia: Guerrillas are nearly wiped out. (Page 5)

Uruguay: Action against labor agitation (Page 6)

25X1

25X1

Approved For Release 2002/10/25 : CIA-RDP79T00975A010400090001-6

Next 3 Page(s) In Document Exempt

Approved For Release 2002/10/25 : CIA-RDP79T00975A010400090001-6

USSR: The Soviet announcement yesterday of a 15 percent increase in the defense budget for 1968 probably reflects real growth in planned military spending.

Finance Minister Garbuzov stated that the rise resulted from "international tension that calls for greater attention to the strengthening of the defense potential" and from "increased aid to other countries." The Soviets announced a similar large rise in 1961 after the US reported a substantial increase in its defense spending.

The total Soviet outlay next year almost certainly will not rise as much as 15 percent. Part of the announced increase probably reflects accounting changes which shift defense expenditures into the military budget from other budget categories. Furthermore, the possible inflationary effect of price changes made in mid-1967 may make the increase appear more significant than it really is.

New programs and the acceleration of some existing programs probably will require significantly greater allocations than in 1967. The costs of increased support for North Vietnam and the resupply of the Middle East also may contribute to the growth.

The defense budget announced yesterday represents 13.5 percent of the total Soviet budget planned for 1968. The planned defense expenditures for 1967 are 13.2 percent of the total budget. [REDACTED]

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11 Oct 67

3

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Czechoslovakia: The leadership's inability to reconcile opposing conservative and liberal views within the party has prevented it from dealing realistically with a variety of serious problems.

There are deep-seated differences in the leadership regarding the pace and scope of the attempt at economic liberalization and the way to handle the growing restlessness of Czechoslovak urban youth. Recent regime moves to curb growing dissidence in cultural and intellectual circles reflect the increased influence of party moderates who favor a mild response to the intellectuals.

Another of the regime problems is the widespread unpopularity of its support of the Soviet Union's Middle East policies within the party-government apparatus as well as among the population.

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The cautious Czechoslovak leadership may be forced to decide soon whether to shift to a conservative style of rule or to favor a continuation of the more liberal path begun in 1963. Failure to come to a decision would nourish instability within the regime and might ultimately threaten Novotny's leadership.

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11 Oct 67

4

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*Bolivia: Cuban-supported guerrillas have been nearly wiped out by recent army operations.

For the past three weeks, the Bolivian Army has scored a number of successes against the guerrillas. In the latest encounter at least seven guerrillas were killed. One of these has been tentatively identified as Ernesto "Che" Guevara. The Bolivian Army believes that the remaining guerrillas are surrounded and will soon be eliminated.

The defeat of the guerrillas will be a severe blow to Fidel Castro. Although in itself this is not likely to weaken Castro's determination to continue to foment armed revolution in the hemisphere, it will dim the enthusiasm of many Latin American extremists who have been making plans along these lines. [REDACTED]

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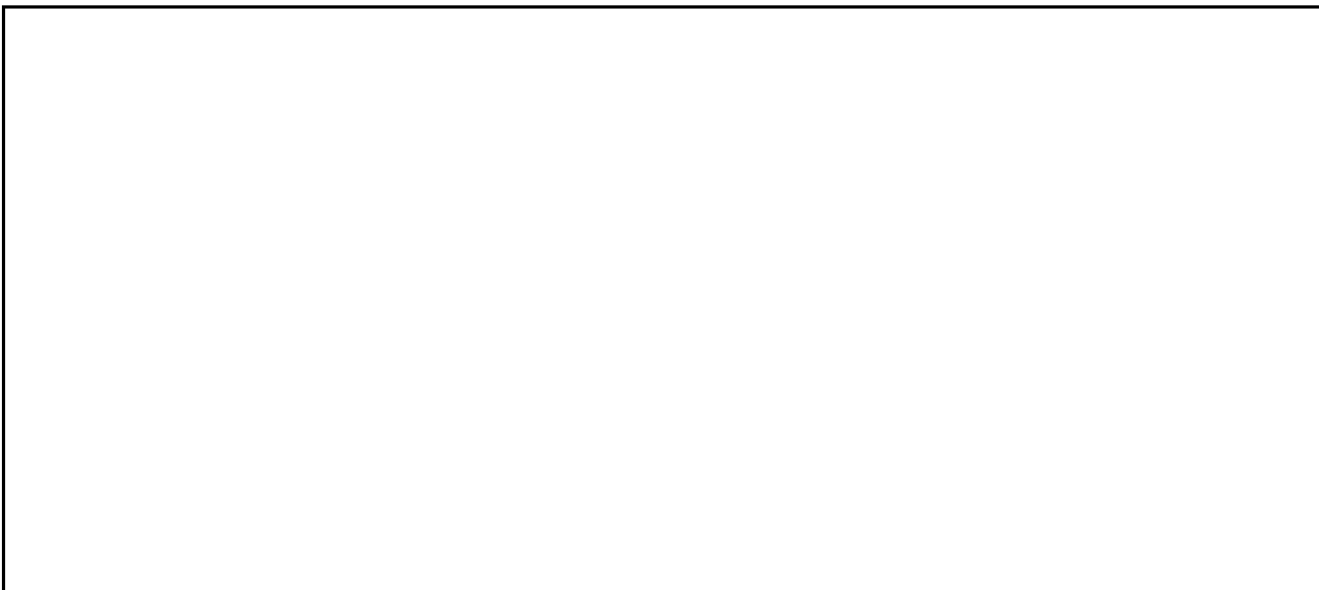
11 Oct 67

5

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*Uruguay: The Gestido government is moving with unprecedented force to curtail labor agitation in the wake of the recently declared state of siege. The police have arrested several officials of the defiant bank workers union, [REDACTED]. Nevertheless, the Communists may still try to provoke a general strike scheduled for today. All strike propaganda has been officially banned, and Communist chances for success--never bright in the first place--have been greatly diminished by the government's forceful actions.

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11 Oct 67

6

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